

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

REVIEW REPORT  
OF  
INDIANA ARTS COMMISSION  
STATE OF INDIANA  
April 1, 2002 to March 31, 2006



**FILED**  
7/21/06



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AGENCY OFFICIAL

Office

Official

Term

Executive Director

Dorothy L. Ilgen

01-08-01 to 07-31-06



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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## INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE INDIANA ARTS COMMISSION

We have reviewed the receipts, disbursements, and assets of the Indiana Arts Commission for the period of April 1, 2002 to March 31, 2006. The Indiana Arts Commission's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Indiana Arts Commission are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations except as stated in the review comments.

STATE BOARD OF ACCOUNTS

June 13, 2006

INDIANA ARTS COMMISSION  
REVIEW COMMENTS  
March 31, 2006

SDO FUND RECONCILIATIONS

As mentioned in prior Report B18839, the Indiana Arts Commission has not performed the bank reconciliations of its Special Disbursing Officer (SDO) advance in a timely manner.

Two reconciliations must be performed for the SDO fund each month. The bank statement for the checking account must be reconciled to the check register. Also, the check register must be balanced to the total SDO advance. These reconciliations must be formally documented. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 7)

INTERNAL CONTROLS OVER DISBURSEMENTS

The Indiana Arts Commission held a state warrant for several months before forwarding to the payee. The payment was processed in June 2005 to prevent its mandatory reversion back to the general fund. This warrant was not released to the payee until February 2006, when payee forwarded the required financial report.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding control over cash and all other assets and all forms of information processing are part of an internal controls system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

INTERNAL CONTROLS OVER CONTRACTS

The Indiana Arts Commission issues two year grants to regional not for profit entities (subgrantees) to advance promotion of the arts in Indiana. The contract used to secure these two year agreements does not include some minimum subgrantee requirements regarding audits and reports.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding control over cash and all other assets and all forms of information processing are part of an internal controls system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

INDIANA ARTS COMMISSION  
EXIT CONFERENCE

The contents of this report were discussed on July 7, 2006, with Dorothy L. Ilgen, Executive Director, Michelle Anderson, Deputy Director; and Mellie Tolentino, Accountant. The official response has been made a part of this report and may be found on pages 6 through 12.



Mitchell E. Daniels, Jr.  
Governor

Dorothy L. Ilgen  
Executive Director

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July 14, 2006

Bruce A. Hartman, CPA  
State Examiner  
State Board of Accounts  
302 West Washington Street, Room E418  
Indianapolis, Indiana 46204

Dear Mr. Hartman:

Thank you for providing the Indiana Arts Commission with the opportunity to respond in writing to the Audit Review Comments which were prepared on March 31, 2006 and presented to the IAC staff on July 7, 2006.

Attached is our response for your review. In understand that it will be appended to the audit report.

Thank you and Mike Lynch, field examiner, for providing this opportunity. Going through the audit process in an interesting learning process and helps our agency to improve our systems of controls to ensure good stewardship of public funds.

Sincerely,

Dorothy L. Ilgen  
Executive Director

Cc: Ronald Stratten, Chairman, Indiana Arts Commission  
Michelle Anderson, Deputy Director, Indiana Arts Commission



INDIANA ARTS COMMISSION  
OFFICIAL AUDIT RESPONSE  
July 2006

The exit interview took place on July 7, 2006 at 2:00 P.M. in the office of Ms. Dorothy L. Ilgen, Executive Director of the Indiana Arts Commission (IAC). Mike Lynch, field auditor from the State Board of Accounts (SBoFA) and Ms. Michelle Anderson, Deputy Director and COO/CFO of the Indiana Arts Commission, and Ms. Ilgen were present.

The IAC would like to respond to the items listed in SBoFA's "Review Comments" dated March 31, 2006 and presented to the IAC staff on July 7, 2006.

**SDO Fund Reconciliations**

Two days prior to the start of this audit, the IAC Accountant, Emelita Tolentino, returned from an emergency 5-week trip to The Philippines due to the final illness and death of a family member. The SDO account was not reconciled during her time away from the office as she was then the only financial agent for the IAC that could properly administer this duty. In mid-April 2006, the IAC hired Michelle Anderson to fill the formerly "frozen" position of Deputy Director, which is the CFO/COO position for the Commission. Ms. Anderson has been cross-trained in PeopleSoft Financials to provide an additional staff support in the case of any emergencies. With the addition of a second financial staff position to provide back-up as needed, future reconciliation of the IAC SDO will be performed regularly to be in full compliance with the Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 7.

**Internal Controls Over Disbursements**

To insure that state warrants are not held beyond a reasonable time period, the IAC has begun a process to change its grant guidelines and final grant reporting procedures. These changes will include: 1) an altered grant timeline that will require the submission of all final grant reports by grant recipients before the state's fiscal year-end closeout (June 15); 2) additional text in the contract that noncompliance with submission of final grant reports will cause loss of the final grant payment and eligibility for future grants; and 3) improved communication about noncompliance and future eligibility (see below).

The IAC currently includes in its eligibility guidelines for all grant programs that noncompliance with IAC reporting requirements in any fiscal year makes that organization ineligible for any IAC future grants. The IAC will include this policy statement in all IAC grant documents, contracts, and in on-line grant tools and information for the FY 2008-2009 grant cycle(s), both for one-year and two-year grant categories.

The impact of these new contract stipulations will be:

- For final grant reports are received by this earlier deadline, payment will be issued once the final grant report is reviewed and approved by staff; OR
- For final reports are not received by IAC deadline, the organization will be denied the final grant payment and will be deemed ineligible for future IAC funding.

## **Internal Controls Over Contracts**

The Indiana Arts Commission requires that all nonprofit organizations or public agencies that apply to one or more of the five organizational grant application programs directly managed by the IAC to submit an audit prepared by an independent CPA firm. (See IAC grant guidelines excerpt, "Conditions and Requirements," Attachment A) This includes the 12 applicants to the Regional Arts Partnership grant category.

The Regional Arts Partners (RAPs) regrant a portion of their funding (Regional Block Grant) from the IAC to over 300 nonprofit organization and public agencies within each of their regions. The RAPs require an independent audit for some of the grant categories that they manage on behalf of the Indiana Arts Commission. The IAC Regional Arts Partnership Policy Manual provides the Regional Arts Partner with latitude to establish the threshold for grant categories requiring the submission of an audit. This change was made in 2004 to address the increasing cost of preparation of an audit due to Sarbanes-Oxley and to the declining pool of state and federal funds available for regranting through the Regional Arts Partnership. Generally speaking, nonprofit arts agencies seeking operating support at the regional level and at the state level are required to submit an independent financial audit (or compliance audit, if applicable) as part of the complete application package.

A few years ago, the IAC streamlined the grant documents containing terms and conditions on managing an IAC grant, and during this process, important information about audits and compliance audits was deleted from the instruction forms that accompany the contract. Although all IAC guidelines and application instructions for organizational grants currently include information about audits and compliance audits, this information is not included in the contract or terms and conditions documents.

Over the next six months, the Indiana Arts Commission will be developing an on-line grant application, guidelines, and tools for the FY 2008-2009 grant cycles. As the IAC revises grant guidelines, final grant reports, terms and conditions, the "Manage Your Grant" website pages, and state contracts, the IAC will address this issue of internal controls over contracts as follows:

- 1) Develop a "Terms and Conditions" section on the IAC website and prompts within the on-line application form to direct potential applicants to this section;
- 2) Expand the explanation of the audit and compliance audit requirements, including a Q & A section to differentiate between the audit and compliance audit, including conditions which require a compliance audit;
- 3) Include in the Regional Arts Partnership guidelines and policy manual language that explains the audit/compliance audit requirements for state and federal pass-through funds (see sample text A below);
- 4) Add appropriate text to the IAC contract with the Regional Arts Partners that stipulates the audit/compliance audit requirements for state and federal pass-through funds (see sample text B below);
- 5) Include general terms and conditions information in contract packages and through e-mails; and

- 6) Require (and monitor compliance by) Regional Arts Partners to include appropriate text in their grant application and guidelines and in their contract with subgrantees.

*Text A: The following text or similar to be added to future Regional Arts Partners' contracts:*

"Regional Arts Partners are required to submit an Independent Financial Audit for each year of Indiana Arts Commission funding. A Compliance Audit is required of Regional Arts Partners that receive \$500,000 or more per year in the aggregate from one or more federal grants. Regional Arts Partners are also responsible for administering state and federal audit guidelines for state and federal pass-through funds. "

*Text B: In addition to existing audit recommendations currently stated in Regional Arts Partners' application instructions, the following text or similar will be added to all future Regional Arts Partners' contracts, beginning with the FY 2008-2009 contract period:*

"The following text must be included in all Regional Arts Partners' Sub-grantees' contracts: Recipients of state and federal grant funds awarded by (Regional Arts Partner name), including regional subgrantees, may be subject to audit and/or compliance audit by Federal and State agencies or their authorized representatives. Grantees shall provide access to (Regional Arts Partner name here), authorized Federal and State agencies (including the NEA and the Comptroller General), and their authorized representatives, to any books, documents, papers, and records maintained to account for funds expended under the terms and conditions of this grant for the purpose of making audits, examination excerpts, and transcripts, and shall provide audit reports of Grantee-conducted audits of these funds upon request. Grantees shall make all such records available upon request for examination during regular business hours. "

## **ATTACHMENT A**

### **CONDITIONS AND REQUIREMENTS**

#### ***Public input and manifestation***

Before the Biennial Plan is presented to the IAC, provision for public review and comment must be offered for the purpose of gathering reaction to the proposed Biennial Plan. You could host a public forum to discuss the Biennial Plan, post the Biennial Plan on your website, conduct a direct mail survey, arrange for an Advisory Council review, etc. The public comment period should be scheduled with sufficient lead-time to allow for revisions of the Biennial Plan prior to final submission to the IAC. You will need to keep a written record of public comments for at least one year, and these comments will be available for review by anyone who requests them.

There must be a public manifestation of all funded activities within the year they are supported. "Public manifestation" means the project must result in a product or activity that is clearly identifiable and, where applicable, available to the public. Community Arts Program activities must be accessible to persons with special needs and open to the audience, participants, or public, either free or by reasonable admission or service charge. You must also ensure that all organizations receiving regranting funds are also providing a public manifestation of all funded activities.

In addition, all RAPs must conduct an annual customer satisfaction survey of regional applicants, grantees, and service recipients.

#### ***Civil Rights***

The Regional Partner Organization must agree to comply with all state and federal laws and regulations concerning civil and human rights and must assure that programs, awards, and employment practices are free of any discrimination based on race, color, national origin, physical disability, religion, gender, or age.

***Your signed Biennial Plan and Grant Agreement indicates that you and your organization understand and are in compliance with these laws:***

- Title VI of the Civil Rights Act of 1964 (42 U.S.C. 200d) which provides that no person in the United States shall, on the grounds of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subject to discrimination under any program or activity receiving federal financial assistance.
- Title VII of the Civil Rights Act of 1964 (42 U.S.C. 200e) as amended by the Equal Opportunity Act of 1972 (Public Law 92-261).
- Section 504 of the Rehabilitation Act of 1973 (29 U.S.C. 706) provides that no otherwise qualified handicapped individual in the United States, as defined in the law, shall, solely by reason of his handicap, be excluded from participation in, be denied the benefits of, or be subject to discrimination under any program or activity receiving federal assistance.

*The term "handicapped individual" means "any person who (a) has a physical or mental impairment that substantially limits one or more of such person's major life activities, (b) has a record of such an impairment, or (c) is regarded as having such an impairment."*

- Americans with Disabilities Act of 1990, which provides for nondiscrimination in public accommodation on the basis of disability.
- Title IX of the Education Amendments of 1972 which provides that no person in the United States shall, on the basis of sex, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any education program or activity receiving federal assistance.
- The Age Discrimination Act of 1975, which provides for nondiscrimination in federally assisted programs on the basis of age.

### ***Drug Free Workplace***

The Drug Free Work Place Act of 1988 requires that employees of the grantee not engage in the unlawful manufacture, distribution, dispersion, possession, or use of controlled substances in the grantee's workplace or work site.

### ***Fair Labor Standards***

Applicants must follow Fair Labor Standards which provide that all professional performers and related or supporting professional personnel employed on projects or productions that are financed in whole or in part by this grant will be paid, without subsequent deduction or rebate on any account, not less than the minimum compensation as determined by the Secretary of Labor to be the prevailing minimum compensation for people employed in similar activities.

No part of any project or production that is financed in whole or in part under this grant will be performed or engaged in under working conditions that are unsanitary, hazardous, or dangerous to the health and safety of the employees engaged in a project or production. Compliance with the safety and sanitary laws of the state in which the performance or part thereof is to take place shall be prima facie evidence of compliance.

### ***How to Complete and Submit the Regional Plan (with samples)***

Beginning with the FY 2006-2007 Regional Arts Partners Biennial Plan, each Regional Arts Partner will be required to submit an electronic grant (e-grant), which will require completing the application form on-line. Only complete and accurate Regional Plans can be submitted through the e-grant process. Incomplete applications will not be considered for funding.

To expedite the completion of the Biennial Plan, the Indiana Arts Commission has used a combination of check boxes and text boxes to gather information about your organization and your programs and services. The text boxes have a maximum character limit or size limit.

Please refer to the information below to assist you in completing the form.

### **ORGANIZATIONAL INFORMATION**

Provide the information as requested; do not leave any section blank. Please be sure to use your organization's legal name, not your informal name. (Your organization's legal name is the name under which your organization was incorporated. If your organization wishes to use an informal name, the name must be legally changed with the Indiana Secretary of State office before submission of the Biennial Regional Plan.)

Beginning with FY 2006, the IAC is requiring a Dun & Bradstreet (D & B) Data Universal Numbering System number (D-U-N-S #) for all applicants. If your organization does not have a D-U-N-S number, you may get one at no cost from D&B from their website (<https://eupdate.dnb.com/requestoptions.html>).

### REGIONAL ARTS PARTNER PROFILE

**Governance** – In addition to the narrative questions, please provide in the chart provided the names of your board members, the county in which they reside, their occupation, and their area of interest in the arts. Also indicate with an asterisk who on your board holds an office (President, chairman, secretary, etc.), and with a + sign to indicate board members whose race is other than “White/Caucasian.” See also “What to Submit Checklist” on page 51 for additional required information about your board.

**Financial Position** – In this section, please provide information on your organization’s current (FY 2004-2005) financial position, including information, if applicable, on deficit reduction plans, significant changes anticipated for FY 2006-2007, and resource development plans.

**Annual Financial Statement** --Your organization is also required (See also “What to Submit Checklist” on page 51 for additional required information) to submit a copy of an annual financial statement for the most recently completed fiscal year. This required document is not the same as the required audit mentioned below.

In addition to the Annual Financial Statement, submit one copy (including management advisory letter) of an Independent Financial Audit or a Compliance Audit. (Compliance Audits are required for those organizations that receive \$500,000 or more per year from federal funds..

**Personnel** – In addition to the narrative questions, please provide in the chart on page ?? information about your staff. Please list employee name, position or job title, check whether they are full-time or part-time employees, and provide the average number of hours worked per week.

Please indicate by checking “yes” if the employee listed provides direct (regional coordinator, etc.) or indirect (receptionist, etc.) services to the Regional Arts Partnership. If “yes” is checked, please provide the estimated amount of time that employee will provide per fiscal year to the Regional Arts Partnership.

*See sample below.*

#### SAMPLE

Employee Name	Position Title	FTE	PTE	Avg. Hrs	Related to Regional Partnership?	
					Yes	% of time
Dolly Dogsbody	Admin. Asst	<input type="checkbox"/>	X	20hrs/wk	x	50%
Sammy Smooth	Development Dir.	x	<input type="checkbox"/>	45 hrs/wk	x <input type="checkbox"/>	5%
Cheryl Childress	Ed. Coordinator	<input type="checkbox"/>	X <input type="checkbox"/>	10 hrs/wk	<input type="checkbox"/>	0%
Ariel Artful	Executive Dir.	x <input type="checkbox"/>	<input type="checkbox"/>	60 hrs./wk	x <input type="checkbox"/>	50%
Kathy Chatty	Receptionist	<input type="checkbox"/>	X <input type="checkbox"/>	20 hrs./wk	x <input type="checkbox"/>	5%
Steve Swindoll	Accountant	<input type="checkbox"/>	X <input type="checkbox"/>	30 hrs/wk	x <input type="checkbox"/>	15%

**Please attach the job descriptions and resumes or bios of the CEO and Regional Services program staff or independent contractor.**